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RHEBAAA/DEPT OF ENERGY WASHINGTON DC
RUCPDOC/DEPT OF COMMERCE WASHDC
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UNCLAS SECTION 01 OF 03 MEXICO 000279

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TREASURY FOR IA (ALICE FAIBISHENKO)
DOE FOR INTERNATIONAL AFFAIRS KDEUTSCH AND SLADISLAW
STATE PASS TO USTR (EISSENSTAT/MELLE)
STATE PASS TO FEDERAL RESERVE (CARLOS ARTETA)
NSC FOR DAN FISK, CINDY PENDELTON

E.O. 12958: N/A
TAGS: ECON EAGR ECPS ELAB EPET ETRD PGOV MX
SUBJECT: MEXICO ECONOMIC NOTES, JANUARY 11 - 17 2007

REF: MEXICO 152

Summary

¶1. (U) In response to sharp increases in tortilla prices, the Calderon government has agreed to temporary price restraints with a number of producers and distributors. Finance Secretary Carstens has said he believes that the drop in oil

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prices is temporary and will not result in budget cutbacks during 2007, but oil price declines would harm the Mexican economy if fiscal reform is not enacted for 2008 and 2009. The independent Federal Telecommunications Commission (Cofetel) faces a threat from the Secretariat of Communications and Transportation. Ten years after the opening of the telecommunications sector, Telmex still maintains its monopoly. Calderon voiced his support for open markets and assured that he would comply with Cofetel's ruling on the possibility of a third channel. End Summary.

Agreement Reached on Tortilla Pricing

¶2. (U) Over the past few weeks, there have been sharp increases in prices for corn tortillas - a staple of the Mexican diet. Tortilla prices had spiked to as much as 10 pesos per kilo (USD 0.91) in some parts of Mexico. After initially saying it would not resort to price controls, the Calderon Administration has reached an agreement with some corn and tortilla producers and distributors to limit prices. The "Agreement for the Stabilization of Tortilla Prices" will be in affect until April 30. The association representing small neighborhood tortilla producers committed to limit prices to 8.5 pesos per kilo, while Wal-Mart and the association covering all supermarkets in Mexico (The National Association of Retail Industry, ANTAD) agreed to sell tortillas for 6.5 pesos per kilo. The Chamber of Corn producers agreed to sell corn meal/flour to tortilla makers at 5 pesos per kilo. Diconsa, a government agency that sells

staples to the poor, will sell corn for 3.5 pesos a kilo. Experts blame speculation and hoarding, rather than an actual shortage of corn, for rising tortilla prices. The government agreed to allow additional corn imports, in order to force hoarders to put their stocks on the market. (See Septel)

GOM Not Disturbed by Oil Price Drop

¶3. (SBU) In discussions with USG officials and in public statements, Finance Secretary Agustin Carstens has said the decline in oil prices will not force cuts to the government budget in 2007, but will in 2008 and 2009 unless fiscal reform is enacted to increase tax collection and move away from a budget so dependent on petroleum revenues. Carstens and Under Secretary of Finance Alejandro Werner explained privately that use of the Oil Stabilization Fund and other hedging mechanisms would avoid the need for cuts in the 2007 budget. Carstens publicly claims he believes the decline in oil prices to be temporary, and has not admitted to any price below which the Mexican government would have to cut the 2007 budget. Both government and private analysts admit that there is a delicate public relations game being layed because the threat of declining oil revenues is needed to force the Congress and special interests in Mexico to approve fiscal reform, such as measures to broaden the tax base and reform operations in the state oil company, PEMEX. Yet, the budget situation is not yet dire, and there is no need to upset international markets.

¶4. (U) Pemex figures show the average price of Mexico's export blends at 40.44 USD per barrel on January 18, below the 42.80 USD price assumed by officials in drawing up the country's budget for 2007. A private analyst from HSBC Bank estimates that the Mexican crude export mix would have to

fall below USD 37.30 a barrel before the government would be required to cut spending for 2007.

President Announces Jobs Initiative

¶5. (U) On January 15, President Calderon signed a decree establishing the "National First Job Program" to give cash incentives to companies hiring first-time job holders. The government will also pay social security costs for first-time job holders for one year. Calderon said the program is aimed at helping young people and millions of women who have never worked. In announcing the program, Calderon noted that about one million young Mexicans enter the work force every year but the economy struggles to provide enough jobs for them, forcing many into the huge informal economy where they neither pay taxes, nor receive pension or health benefits. Calderon also noted that the government estimates around 400,000 Mexicans leave their homeland every year to seek work. Speaking later that day before a convention of Mexican industrialists, (the Canacintra), Calderon urged potential employers to participate in the program.

Telecom Regulator vs. the Secretariat for Communications
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¶6. (U) Past reforms to the Federal Telecommunications Law and the Federal Radio and Television law have left wounds that threaten to weaken the telecom regulator Cofetel. These reforms declared that the naming of commissioners at Cofetel (Federal Telecommunication Commission) is exclusively an executive branch prerogative. By law, the executive branch appoints Cofetel commissioners, but Congress has to ratify them. The current Undersecretary of Communications, Rafael del Villar, and Gonzalo Martinez Pous, Chief of the Legal Department for the Secretariat of Communications and Transportation (SCT), filed injunctions against the appointments of Cofetel commissioners, Eduardo Ruiz Vega and Gerardo Gonzalez Abarca. Experts worry that this SCT

intervention could turn Cofetel into a hostage of private interests. Del Villar himself had been named as a Cofetel commissioner during the Fox Administration, but the Congress rejected his and other nominations.

Monopolies in the telecom sector

¶7. (U) Former Mexican officials from the telecommunications sector have publicly acknowledged that authorities have failed to open the sector to more competition. They say that although there are currently 27 long distance carriers, Telmex still holds a 90 percent market share. Jorge Arreola, a former Cofetel commissioner, acknowledged that Cofetel and SCT were unresponsive to investors and unable to ensure compliance with the principles of competition inherent in the law. He said that many of these foreign investors, who invested more than 2 billion USD combined, left Mexico after failing to see returns on their investments. The remaining companies, such as Alestra, Avantel, and Marcatel decided to focus on niches. Arreola said that regulations continue to be confusing and lack transparency. Albert Hilbert, another ex-commissioner, said that the priorities now should be to extend the coverage area for basic telecommunications, and eliminate monopolistic practices such as tariff schemes and the refusal of interconnections to competitors. Telmex representatives counter that, while the number of operators has remained low, there has been a market opening that has brought increases in total traffic volume and improved market conditions overall. More competition is clearly needed. The fact that Mexico faces some of the highest charges for telecommunications services among OECD countries is a major drag on competitiveness, and forces all consumers and businesses to pay monopolistic fees to the telecom giant Telmex.

¶8. (U) In his first press conference since taking office, President Calderon voiced his opposition to monopolies. He said he was convinced that competition benefits consumers and makes economies more efficient. When asked about the possibility of his administration authorizing a third broadcasting company in Mexico, Calderon demurred, explaining that Cofetel was the only authority responsible for auctioning frequencies. He said that he would comply with what Cofetel decides, in accordance with the law.

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